

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 ABF-01 /111 W

----- 103745

R 191721Z DEC 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5244

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 20584

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER
18)

REF.: BONN 17083 AND 19043

1. NEW LEGISLATION TO CHECK FEDERAL BORROWING REQUIRE-
MENTS APPROVED: BOTH HOUSES HAVE NOW APPROVED A GOVERN-
MENT BILL, AS MODIFIED BY THE BUNDESTAG/BUNDESRAT
MEDIATION COMMITTEE, WHICH AMENDS OVER 40 EXISTING LAWS
IN AN EFFORT TO KEEP FEDERAL BORROWING REQUIREMENTS IN
COMING YEARS BELOW OTHERWISE REQUIRED LEVELS. THE BILL
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CURTAILS SPECIAL PRIVILEGES FOR PUBLIC SERVANTS AND EN-

LISTEES, REDUCES GOVERNMENT FINANCING OF VOCATIONAL TRAINING, IMPLEMENTS MORE STRINGENT RULES FOR PAYMENT OF UNEMPLOYMENT INSURANCE AND SIMILAR BENEFITS, CURBS FARM SUBSIDIES, AND RAISES PREFERENTIAL TAX RATES FOR SAVINGS BANKS AND CREDIT COOPERATIVES - ALL EFFECTIVE 1976. IN ADDITION, THE BILL REDUCES, AS OF 1977, FEDERAL OUTLAYS FOR THE CONSTRUCTION OF HOSPITALS AND MUNICIPAL ROADS AND CURTAILS SAVINGS BONUSES. THE FINANCIAL IMPACT OF THE BILL, IN TERMS OF BOTH EXPENDITURE REDUCTIONS AND REVENUE INCREASES IN 1976 IS ESTIMATED AT DM 2.1 BILLION. THIS AND THE DM 3.8 BILLION SHIFT IN OUTLAYS FROM FEDERAL FUNDS TO THE PRIVATE SECTOR INVOLVED IN THE INCREASE IN EMPLOYER/EMPLOYEE UNEMPLOYMENT INSURANCE PREMIUMS RECENTLY APPROVED (SEE BONN 20144) ADD UP TO DM 5.9 BILLION. THUS, THE GOVERNMENT'S ORIGINAL DM 6 BILLION "SAVINGS PROGRAM" SCHEME (SEE BONN 17083) HAS TAKEN THE PARLIAMENTARY HURDLES ESSENTIALLY UNSCATHED.

2. FOREIGN EXCHANGE MARKET: THE DOLLAR STRENGTHENED AGAINST THE DEUTSCHEMARK EARLY IN THE WEEK BUT SHOWED A WEAKENING TREND LATER ON. THE DECEMBER 15 SPOT DOLLAR RATE WAS THE HIGHEST SINCE SEPTEMBER 30. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS	ONE-MONTH	THREE-MONTH
DEC 11	DM 2.6253	-2.1	-2.5
12	2.6307	-2.1	-2.5
15	2.6365	-1.9	-2.4
16	2.6385	-2.1	-2.5
17	2.6340	-1.8	-2.5
18	2.6235	-2.1	-2.5

3. MONEY MARKET: THE GERMAN CALL MONEY MARKET TIGHTENED SOMEWHAT BUT EASED AGAIN LATER ON WITH CALL MONEY RATES RETURNING TO THE LEVEL OF THE 3 1/2 PERCENT REDISCOUNT UNCLASSIFIED

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RATE. THE TIGHTENING MAY HAVE REFLECTED PAYMENTS FOR THE MAJOR MID-DECEMBER TAX DATE. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
DEC 11	3.3-3.5	4.1-4.3	4.0-4.2

12	3.5-3.7	4.L-4.3	4.0-4.3
15	3.8-4.2	4.1-4.3	4.0-4.3
16	3.7-4.0	4.0-4.3	4.0-4.2
17	3.4-3.5	4.0-4.3	4.0-4.2
18	3.4-3.5	4.0-4.3	4.0-4.2

4. FEDERAL GOVERNMENT LOAN: ON DECEMBER 30 THE FEDERAL GOVERNMENT WILL OFFER A DM 660 MILLION LOAN (COUPON 8 PERCENT, ISSUE PRICE 99 1/2, MATURITY 6 YEARS NON-

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CALLABLE, AVERAGE YIELD 8.11 PERCENT). DM 600 MILLION
WILL BE PUBLICLY OFFERED, DM 60 MILLION WILL BE RE-

TAINED FOR OPEN-MARKET OPERATIONS OF THE BUNDESBANK.
THE LOAN IS THE FIRST DOMESTIC LOAN OFFERED AFTER THE
REMOVAL IN MID-NOVEMBER (SEE BONN 19043) OF THE MORA-
TORIUM ON THE ISSUE OF DOMSTIC BONDS INSTITUTED IN JULY
OF THIS YEAR. ACCORDING TO A STATEMENT BY FINANCE
MINISTER APEL THE FEDERAL GOVERNMENT CURRENTLY HAS
BORROWED MORE THAN IT NEEDS TO MEET 1975 BORROWING REQUIRE-
MENTS SO THAT THE PROCEEDS OF THE YEAR-END LOAN WILL
BE USED TO FINANCE 1976 BORROWING REQUIREMENTS.
(ACCORDING TO THE BUNDESBANK'S DECEMBER 7 WEEKLY STATE-
MENT THE FEDERAL GOVERNMENT, ON THAT DAY, HELD NET
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ASSETS WITH THE BUNDESBANK OF DM 2.7 BILLION AS COMPARED
WITH NET BORROWINGS OF DM 3.1 BILLION ON DECEMBER 7,
1974).

5. ISSUE OF FOREIGN DM BONDS: THE REPUBLIC OF IRELAND
AND THE KINGDOM OF NORWAY ARE PREPARING THE ISSUE OF
BONDED LOANS OF DM 100 MILLION EACH. THE IRELAND
LOAN WILL REPORTEDLY CARRY A COUPON OF 8 1/4 PERCENT
AND A MATURITY OF 5 YEARS NON-CALLABLE, AND THE NORWAY
LOAN A 7 3/4 PERCENT COUPON AND A 5 YEAR (NON-CALLABLE)
MATURITY.

6. ECONOMIC INDICATORS PUBLISHED THIS WEEK: INSOLVEN-
CIES IN OCTOBER TOTALLED 856; THIS IS 146 OR 20.6 PER-
CENT MORE THAN IN SEPTEMBER 1975 AND 110 OR 14.7 PER-
CENT MORE THAN IN OCTOBER 1974. DURING THE PERIOD
JANUARY/OCTOBER 1975, INSOLVENCIES CAME TO 7660, THUS
EXCEEDING COMPARABLE 1974 LEVELS BY 1385 OR 22.1 PER-
CENT. FOR 1975 AS A WHOLE, INSOLVENCIES ARE UNOFFICI-
ALLY ESTIMATED TO REACH 9,000-9,500, VERSUS 7,722 IN
1974. ACCORDING TO FIRST PRELIMINARY ESTIMATES
OF THE FEDERAL STATISTICAL OFFICE, RETAIL SALES IN
OCTOBER SURPASSED COMPARABLE 1974 LEVELS BY 9 PERCENT
IN CURRENT PRICES AND BY 3 PERCENT IN CONSTANT (1970)
PRICES. IN JANUARY/OCTOBER 1975, RETAIL SALES EX-
CEEDED LAST YEAR'S LEVELS BY 3 PARCENT REAL AND 9
PERCENT NOMINALLY. THE INDEX OF EFFECTIVE INDUSTRIAL
WAGES (1962100) ROSE SLIGHTLY FROM 312.0 IN AUGUST
TO 312.6 IN SEPTEMBER: THE RATE OF INCREASE OVER
COMPARABLE 1974 LEVELS, WHICH HAD DROPPED FROM 5.4
PERCENT IN JULY TO 4.7 PERCENT IN AUGUST, CAME TO
8.8 PERCENT IN SEPTEMBER.
HILLENBRAND

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